

CITY OF LA HABRA

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2008, through June 30, 2009



JOHN CHIANG
California State Controller

September 2010



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California State Controller

September 10, 2010

The Honorable G. Steve Simonian
Mayor of the City of La Habra
201 E. La Habra Boulevard
La Habra, CA 90633-0337

Dear Mayor Simonian:

The State Controller's Office audited the City of La Habra's Special Gas Tax Street Improvement Fund for the period of July 1, 2008, through June 30, 2009. We also audited the Traffic Congestion Relief Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2003, through June 30, 2009.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements except that it understated the fund balance by \$33,112 as of June 30, 2009. The city understated the fund balance because the expenditures exceeded the available fund balance by \$33,112 for the fiscal year ended June 30, 2005.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: Don Hannah
City Manager
James Sadro
Director of Finance and Administrative Services
Gilbert Petrissans, Chief
Local Program Accounting
Department of Transportation

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Audit Report

Summary

The State Controller's Office audited the City of La Habra's Special Gas Tax Street Improvement Fund for the period of July 1, 2008, through June 30, 2009. We also audited the Traffic Congestion Relief Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2003, through June 30, 2009.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements except that it understated the fund balance by \$33,112 as of June 30, 2009. The city understated the fund balance because the expenditures exceeded the available fund balance by \$33,112 for the fiscal year ended June 30, 2005.

Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the Special Gas Tax Street Improvement Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;
- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund in accordance with the requirements of the Streets and Highways Code and Revenue and Taxation Code section 7104. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit disclosed that the City of La Habra accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2008, through June 30, 2009, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$33,112 to the city's accounting records.

Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2003, through June 30, 2009.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on March 5, 2004, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on July 8, 2010. Mel Shannon, Deputy Director of Finance, responded by e-mail dated August 16, 2010, agreeing with the audit results. The city's response is included in this final audit report as an attachment.

Restricted Use

This report is intended for the information and use of the City of La Habra and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

September 10, 2010

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2008, through June 30, 2009**

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocation ¹	TCRF Allocation ²	Totals
Beginning fund balance per city	\$ 2,119,840	\$ —	\$ 2,119,840
Revenues	<u>1,182,628</u>	<u>740,021</u>	<u>1,922,649</u>
Total funds available	3,302,468	740,021	4,042,489
Expenditures	<u>(810,115)</u>	<u>—</u>	<u>(810,115)</u>
Ending fund balance per city	2,492,353	740,021	3,232,374
SCO adjustment: ³			
Finding—Deficit fund balance	<u>33,112</u>	<u>—</u>	<u>33,112</u>
Ending fund balance per audit	<u>\$ 2,525,465</u>	<u>\$ 740,021</u>	<u>\$ 3,265,486</u>

¹ The city receives apportionments from the state highway users tax account, pursuant to Streets and Highways Code sections 2105, 2106, 2107, and 2107.5. The basis of the apportionments for Sections 2105, 2106, and 2107 varies, but the money may be used for any street purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems.

² Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the Special Gas Tax Street Improvement Fund. The audit period was July 1, 2003, through June 30, 2009.

³ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Deficit fund balance in
the gas tax fund**

As of June 30, 2005, the recorded fund balance in the gas tax fund was a deficit \$33,112. By definition, each fund is a separate fiscal and accounting entity with a self-balancing set of accounts. A fund with a deficit fund balance would be insolvent.

In addition, encumbering future highway apportionments to finance current-year and prior-year expenditures is contrary to generally accepted accounting principles.

Recommendation

The city should replenish the gas tax fund by \$33,112 to eliminate the deficit fund balance. In the future, the city should adopt a balanced budget that limits expenditures to the amount of funds available.

City's Response

The city agrees with the finding and will transfer \$33,112 from the General Capital Projects Fund to reimburse the Special Gas Tax Street Improvement Fund.

**Attachment—
City's Response to
Draft Audit Report**

August 16, 2010

MEMORANDUM

**TO: Steven Mar
Chief, Local Governments Audit Bureau
Local Governments Audits Bureau at
The State Controller's Office**

**FROM: MEL SHANNON
Deputy Director of Finance**

SUBJECT: AUDIT COMMENTS – JUNE 30, 2009

I have reviewed the June 30, 2009 Special Gas Tax Street Improvement Fund audit draft prepared by State Controller's Office. The section entitled Finding and Recommendation is addressed below.

Finding-Deficit fund balance gas tax:

As of June 30, 2005, the recorded fund balance in the gas tax fund was a deficit \$33,112. By definition, each fund is a separate fund and accounting entity with a self-balancing set of accounts. A fund with a deficit balance would be insolvent.

In addition, encumbering future highway apportionments to finance current-year and prior-year expenditures is contrary to generally accepted accounting principles.

Auditor Recommendation:

The City should replenish the gas tax fund by \$33,112 to eliminate the deficit fund balance. In the future, the City should adopt a balanced budget that limits expenditures to the amount of funds available.

City Response:

The City of La Habra agrees with the finding that there was a \$33,112 deficit fund balance in the gas tax fund at June 30, 2005. We will transfer \$33,112 from our General Capital Projects fund to reimburse the Gas Tax fund.

The City of La Habra always adopts balanced budgets. I believe the overspending in that fiscal year was an uncommon exception that has not occurred before or since. I believe the overspending was attributed to the resignation of the City's Sr. Civil Engineer who managed the capital projects and the time it took to fill that position which was not

completed until April 2005.

**State Controller's Office
Division of Audits
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